

**LOCAL GOVERNMENT BORROWING:  
RISKS AND REWARDS  
A REPORT ON CENTRAL  
AND EASTERN EUROPE**

DECENTRALIZATION IN THE REGION HAS LED TO LOCAL GOVERNMENTS HAVING A CHOICE IN HOW THEY GENERATE REVENUE. LOCAL AUTHORITIES NOW ENJOY CONSIDERABLE DISCRETION IN POLICY-MAKING — THEY ARE RESPONSIBLE FOR A VARIETY OF PUBLIC SERVICES THAT REQUIRE CAPITAL INVESTMENTS, TAXATION HAS BECOME A MEANS OF FINANCIAL INDEPENDENCE AND THE RIGHT TO CREDIT INSTRUMENTS HAS BEEN FORMALIZED.

AGAINST THIS REFORM IN LOCAL GOVERNMENT, PAWEŁ SWIANIEWICZ ASKS TWO KEY QUESTIONS: SHOULD LOCAL GOVERNMENTS BORROW? AND SHOULD LOCAL POLITICIANS SUPPORT THE PRACTICE? WHAT IS CLEAR IN ANSWERING THESE QUESTIONS IS THE NEED TO DISTINGUISH BETWEEN BORROWING FOR CAPITAL INVESTMENT AND FOR FINANCING DAY-TO-DAY OPERATIONS. A BALANCED BUDGET PRESCRIBES THAT LOCAL AUTHORITIES NEVER TAKE ON DEBT TO COVER CURRENT COSTS, BUT IT ALLOWS, AND EVEN PROMOTES, PRUDENT BORROWING FOR CAPITAL PURPOSES. LOCAL GOVERNMENTS MUST CHOOSE BETWEEN THE REWARD OF CAPITAL IMPROVEMENTS AND THE RISK OF DEBT.

THE INTRODUCTION TO THIS VOLUME OF THE LOCAL GOVERNMENT POLICY PARTNERSHIP SKETCHES THE THEORETICAL AND PRACTICAL CONSEQUENCES THAT LOCAL GOVERNMENTS FACE IN DECIDING TO BORROW. IT CITES EXAMPLES FROM WESTERN EUROPE WHERE THEY HAVE SUCCEEDED AND FAILED IN MANAGING CAPITAL LOANS. SUBSEQUENT COUNTRY STUDIES REFLECT ON THE BORROWING MARKET IN THE CZECH REPUBLIC, ESTONIA, HUNGARY, POLAND, ROMANIA, RUSSIA AND SLOVAKIA. THEY RECOMMEND STEPS THAT WOULD FACILITATE THE OPPORTUNITIES FOR LOCAL GOVERNMENTS TO BORROW. REGULATION IS ESSENTIAL TO LOCAL GOVERNMENT BORROWING AND A VARIETY OF PRACTICAL ARRANGEMENTS ARE PRESENTED.



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EDITED BY  
PAWEŁ  
SWIANIEWICZ



LGI BOOKS

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